VERIZON NEW JERSEY

INCENTIVE PLAN

FOR THE STATE OF NEW JERSEY

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VERIZON NEW JERSEY INCENTIVE PLAN

I. SUMMARY

This Incentive Plan (IP) is a self-executing financial incentive plan that will ensure that Verizon NJ Inc. (VNJ) provides quality wholesale services to competitive local exchange carriers (CLECs).

In an Order dated July 13, 2000, the Board adopted Carrier-to-Carrier Guidelines (Guidelines) that include a comprehensive set of measures and standards. By Order dated November 9, 2001, the Board adopted revised Guidelines. This IP is intended to be an integral extension of these Guidelines.

The IP uses one or the other of two methods for calculating incentive credits when VNJ's performance does not meet the applicable Guidelines standards. For most measures, incentive credits are computed on a "per unit" basis, which provides for credits to each CLEC that received sub-standard service, in an amount based on the volume of sub-standard service transactions for each affected CLEC. For a few measures, when assessing credits on a "per unit" basis is not feasible, if VNJ's performance does not meet the applicable standard, a pre-established total dollar amount is allocated among affected CLECs.

Both the "per unit" and the "per measure" incentive credits increase as the degree by which a standard is missed increases. The severity of a performance standard miss is categorized as "Minor," "Moderate" or "Major" based on the magnitude of a miss.

In addition, both the "per measure" and the "per unit" incentive credits increase with the duration of a miss. The incentive credit for a measure for which the standard is missed for two consecutive months will be two (2.0) times the amount that would be due if the standard had been missed for only one month. The incentive credit for a miss for three consecutive months will be three (3.0) times the amount that would be due if the standard had been missed for only one month. In the event that misses continue for four or more months, the incentive credit will be five (5.0) times the amount that would be due if the standard had been missed for only one month for that month and each month thereafter.

In accordance with the Guidelines, VNJ will report its performance on a monthly basis. Incentive credits due to a CLEC under the New Jersey Plan will appear on a CLEC's bill within one month after the performance is reported as being sub-par. If the credit exceeds the monthly billing, VNJ will simultaneously issue a check for the remainder of credit applicable for that reporting period. In addition, for each month that VNJ is required to issue a credit for sub-standard performance, VNJ shall simultaneously provide the affected CLEC(s) a schedule detailing the calculation of these credit(s). Credits and/or payments that are not processed in a timely matter will be subject to interest at the rate utilized for customer deposits determined by the Board and revised annually. For example, for January performance reported on February 25, incentive credits will be processed in March and will appear on the CLEC's March bill.

II. MEASURES AND BILL CREDIT DETERMINATION

A. Measures Included in the Plan

The measures and standards in the IP will be taken from the Guidelines adopted by the Board. The participants to the Technical Solutions Facilitations Team collaborative have convened to discuss which metrics, if any, will be excluded from any incentive plan due to having no standard or when duplicative. The metrics included within this IP are delineated in Appendix A. The IP covers a broad range of measures from the Pre-Ordering, Ordering, Provisioning, Maintenance, Network Performance, Billing, Operator Services & Databases, and General categories. Measures in the IP are compared against one of two types of standards. For measures of wholesale services for which there is a comparable VNJ retail service, the standard is parity with VNJ retail. For wholesale services with no comparable VNJ retail service, performance is compared to a benchmark standard.

B. Per Measure and Per Unit Incentive Credits

Appendix A also states whether incentive credits are computed on a "per unit" or a "per measure" basis. For each "per unit" measure, credits are calculated as follows:

- The number of affected units is determined by multiplying the number of measured units for the CLEC in that month by the difference between Verizon's actual performance for the CLEC and the applicable standard.
- Credits are then calculated by multiplying the number of affected units by a fixed dollar amount per unit that corresponds to the magnitude of the difference between the standard and actual performance.

For the few measures for which per unit calculation is not feasible (because, for example, all CLECs are affected), a credit amount is assigned to each measure. If the standard is missed, this amount will be allocated among all affected CLECs.[1]

C. Severity of the Miss

Each month, VNJ's performance for each measure will be compared to the applicable standard. The severity of each miss will be categorized as "Minor," "Moderate" or "Major." The amount of the bill credit increases with the magnitude of the miss.

[1] For example, if VNJ missed the standard for a Web GUI pre-order query response time measure, only those CLECs submitting this type of pre-order query through the Web GUI would be allocated credits. The credit amount would be allocated to affected CLECs based upon lines in service at the end of the specific month where the standard was missed.

Performance Differences for Absolute Standards

For measures with absolute standards, the severity of a miss is determined by the difference between the standard and VNJ's performance.

Performance Differences for Parity Standards

For measures with parity standards, the Z-score will be used to determine if the standard has not been met. A Z-score of equal to or less than –1.645 provides a 95% confidence level that the standard has been missed. VNJ will then compare actual performance provided to CLECs with actual retail performance to calculate the magnitude of a miss.[2]

Credits

The following table shows how misses are assigned to the "Minor," "Moderate" or "Major" categories based on the severity of a miss:

	Minor	**Moderate**	**Major**
All Percent Measures	0.1% to < 5% Difference	5% to 15% Difference	> 15% Difference
OSS Response Time Differences (vs. Standard)	< 3 seconds	3 to 8 seconds	> 8 seconds
OSS Availability	< 99.5% to 98%	< 98% to 96.5%	< 96.5%
Report Rate	0.10 to .25	> 0.25 to 2.0	> 2.0
Trunk Blockage	1 trunk group	2 trunk groups	> 2 trunk groups
Notification of Outage (minutes)	21 to 30	>30 to 60	>60
Delay Days for Change Management Notice	9 to 15 days	16 to 25 days	> 25

[2] VNJ shall not use Z-scores to determine the magnitude of a miss. For example, a larger Z-score may result from a larger sample size, and not from a larger disparity in performance.

The following table shows the fixed dollar amounts assigned to “Minor”, “Moderate” and “Major” misses:

	Minor	Moderate	Major
$/Unit	$35	$75	$150
$/Measure	$15,000	$30,000	$75,000

D. Frequency of the Miss

If VNJ misses the standard for a measure for two or more consecutive months, the amount of the incentive credit will increase. A measure for which the standard is missed for two consecutive months will be subject to an incentive credit that is two (2.0) times the amount of the incentive credit for the first month the standard is missed. A measure for which the standard is missed for three consecutive months will be subject to an incentive credit that is three (3.0) times the amount of the incentive credit for the first month the standard is missed. In the event that misses continue for four or more months, the incentive credit for each month will be five (5.0) times the amount that would be due if the standard had been missed for only one month. In addition, VNJ shall be required to calculate and remit any remedy at the three (3.0) times multiple where performance for any three months in a six-month period is sub-standard. If this situation occurs, VNJ must provide performance at an acceptable level for three consecutive months prior to reverting to the lower multiples.

These increases are shown in the following table:

Frequency Factor	**2 Consecutive Months**	**3 Consecutive Months**	**4 or More Consecutive Months**
Multiple of first month incentive credit	2.0	3.0	5.0

E. Annual Dollars At Risk

The maximum annual amount of incentive credits that could potentially be paid by VNJ will be unlimited. If incentive credits due in a single month were to exceed $25.0 million for all CLECs in the aggregate, then VNJ shall pay the first $25.0 million, and at its discretion, may request that the Board commence a proceeding to show why VNJ should not have to provide credits in excess of $25.0 million. Pending resolution of the proceeding, VNJ will hold, in an interest-bearing escrow account, the portion of any credit that exceeds the monthly amount stated above.

F. Statistics

In general, in computing credits, the IP will use the same statistical methodology that is stated in the Guidelines.

Measures with a Parity Standard

Measures with a standard of parity with VNJ retail will use the "modified t and Z statistic" proposed by a number of CLECs.

- A confidence level of 95% will be used as a threshold to determine when parity has not been achieved. Measures with a Z-statistic of equal to or less (farther from zero) than -1.645 will be deemed not to have achieved the parity standard, while those with a Z-statistic greater than -1.645 will be deemed to have achieved parity.

- If the VNJ retail or CLEC sample size for a measure is less than 20, the standard hyper-geometric formula will be used to determine the Z-statistic. It can be calculated using the Hyper-geometric Distribution function ("HYPGEOMDIST") in Microsoft Excel or SAS software.[3] An example of use of this function is set out in Appendix C.
- For metrics that are an average or mean, the remedy shall be computed by determining the Z-Score. If the Z-Score, if greater than -1.645 - no remedy is required; if the Z-Score is equal to or less (farther from zero) than -1.645 the remedy will be calculated as follows:

A) Separately, determine the mean of VNJ's observations and the CLECs observations for the reporting period;

B) Separately, determine the percentage of occurrences above the mean for VNJ and the CLECs;

C) If VNJ's mean is greater than the CLECs mean, no remedy applies. If the CLECs mean is greater than VNJ's, calculate the difference between the means.

D) Divide this result by the standard deviation of VNJ;

E) Multiply this result by the number of CLEC occurrences;

F) Determine the level of severity by calculating the difference between the % of CLEC observations and the % of VNJ observations above

[3] In collaborative meetings in New York with statistical representatives from different CLECs, it was agreed that for measures of percentages, the hyper-geometric distribution provides the same results as permutation. Because this can be completed within Excel, exceptions for small sample size do not have to be run separately from the reports.

the VNJ mean. Compare this result to the credit table for "All Percent Measures";

G) Multiply this result[4] by the appropriate level of severity to determine the applicable remedy.

Measures with a Benchmark Standard

Measures with benchmark standards will use the standards specified in the Guidelines. If the CLEC sample size for a measure is less than 20, less than 2 misses will not generate any bill credits, 2 misses will be considered a miss at a "Moderate" level, and 3 or more misses will be considered a miss at the "Major" level.

G. Additional Provisions

The IP is an integral part of the Guidelines and therefore will be subject to the provisions of the Guidelines. In addition, VNJ will be subject to the following provisions:

1. Late performance reports - If performance data and associated reports are not available to the CLECs prior to 5:00 pm on the due day, VNJ shall be liable for payments of $5,000 for each twenty-four (24) period, or part thereof, to a state fund past the due date for delivery of the reports and data. VNJ's liability shall be determined based on the latest report delivered to a CLEC.

2. Incomplete or revised reports or reports found to require revision – A performance report shall be considered incomplete and requiring revision if VNJ fails to report any metric that the Board required be implemented or if VNJ inaccurately reports any performance data relating to the Guidelines. VNJ shall:

[4] Incentive Plan payments for these results are limited to payments for failures no greater than the actual number of occurrences reported in that month.

a. be required to revise and re-file in a timely fashion any performance report, in full, that is incomplete;
b. be liable for payments of $1,000 to a state fund for every twenty-four (24) period, or part thereof, that the report remains incomplete. The applicable time period for calculating this amount begins with the first day following the due date of the report and continues until the day that the performance report has been revised so that it:
    i. is no longer incomplete;
    ii. has been re-filed with the Board; and
    iii. has been provided to all affected CLECs.
c. be required to revise the Incentive Plan credits to be consistent with the revised and complete performance reports, within 15 days of the re-filing of the performance reports.

For incomplete or revised reports or reports found to require revision, the following procedure shall be applicable:

(1) VNJ shall continue to perform its quality assurance reviews of monthly performance reports and comply with existing change control notice procedures.

(2) Once a report is submitted to a CLEC, the CLEC shall notify Verizon New Jersey of any alleged discrepancies within forty-five (45) calendar days of receipt of each monthly report.

(3) Sixty (60) calendar days after submission of each monthly report to the Board, an officer of Verizon New Jersey Inc. shall certify that VNJ has determined that either (a) no revisions to the monthly report are necessary or have been implemented or (b) that revisions to the monthly report are necessary and have been or will be implemented. In the event that revisions to any monthly report are necessary more than sixty calendar days after its original filing, VNJ shall supplement this certification based on these revisions to the monthly report within fourteen (14) calendar days of determining the need for the revisions.

(4) In the event that revisions are necessary or have been implemented within sixty (60) calendar days after the initial submission of each monthly report to the Board, an officer of Verizon New Jersey shall certify and submit to the Board, within 14 calendar days, the revisions that have been implemented or that are scheduled for implementation, along with a detailed description of the revisions and their root cause.

(5) Included in the aforementioned certifications, VNJ shall address each discrepancy noted by the CLECs and supply a remediation plan, if necessary.

(6) If revisions have been made or are necessary, VNJ shall re-file and certify the corrected report within 120 calendar days from the original date of certification, which is 180 days from the initial filing of the monthly report. Incentives of $1,000.00 per calendar day shall be calculated from the original due date, i.e., the 25th of the month or the next business day, until the corrected report is filed.

(7) If further revisions are necessary after the expiration of this 120 calendar day period, VNJ's incentive calculation shall be as follows:

(a) If re-filed within 181 - 270 calendar days after the initial filing of the report, a multiplier of 2x the $1,000.00 per calendar day incentive shall apply from the original due date of the monthly report.

(b) If re-filed within 271- 360 calendar days after the initial filing of the report, a multiplier of 3x the $1000.00 per calendar day incentive shall apply from the original due date of the monthly report.

(c) If re-filed after 360 calendar days after the initial filing of the report, a multiplier of 5x the $1000.00 per calendar day incentive shall apply from the original due date of the monthly report and a Board investigation shall commence to determine what remedial action, if any, is necessary.

3. Inability of a CLEC to access requested detailed data - If a CLEC cannot access its detailed data underlying VNJ's performance reports due to failures under the control of VNJ, then VNJ shall pay $1,000 for every twenty-four (24) period, or part thereof, (or portion thereof) to a state fund until such data are made available.

4. Audits – On the first year anniversary of the effective date of this IP, an independent third-party audit will be performed at VNJ's expense. The independent third-party auditor shall be chosen by the board or its designee. Further audits, on an annual basis, may be requested by any authorized provider with the associated expenses to be shared among the participants to the audit.

5. As provided in the Board's Order dated July 13, 2000, as revised by the Board's Order dated November 9, 2001, the measurements, standards and incentives adopted in this proceeding will supersede service quality performance and remedies provisions applicable to VNJ in existing arbitrated interconnection agreements upon the effective date of this incentive plan.